



Cost basis reporting: What you need to know

What's changing?

As part of the Emergency Economic Stabilization Act of 2008, new requirements for cost basis reporting were enacted that require mutual funds companies to report cost basis information to both investors and the Internal Revenue Service (IRS) on the sale or exchange of fund shares that were acquired on or after January 1, 2012—called “covered” shares.

The new regulations apply only to taxable accounts. As a result, cost basis is not required for tax-deferred accounts, including education savings and individual retirement accounts

What is cost basis?

Cost basis is the cost of the shares you purchased, including reinvested dividends and capital gains distributions. Where applicable, the cost is adjusted for any applicable sales charges or transaction fees. When you sell shares in a taxable account, the cost basis accounting method you choose determines how your gain or loss is calculated.

What are covered vs. noncovered shares?

The new regulations make a distinction between covered and non-covered shares in a taxable account:

- ✿ **Covered shares** are shares acquired on or **after** January 1, 2012. We are required to report the cost basis for any sales or exchanges of covered shares to you and the IRS.
- ✿ **Noncovered shares** are shares acquired **before** January 1, 2012. Because they are not covered by the new rules, we are not required to report cost basis for these shares to the IRS. As a service to you, we will continue to report any cost basis information we have on noncovered shares for informational purposes only using the **Average Cost** method.

What cost basis accounting methods are available?

Matthews' default cost basis accounting method for our mutual fund investors is **Average Cost**. You have the ability to select a preferred cost basis method for determining your cost basis on covered shares—each with different tax implications. Establishing your preferred method in advance helps facilitate future sales of shares.

Please consult your tax professional to determine which method should be considered for your individual tax situation.

- ✿ **Average Cost:** Calculates your gains or losses on shares sold based on the average purchase price of all the shares you own.
- ✿ **FIFO (First In, First Out):** The shares purchased first are sold first.
- ✿ **LIFO (Last In, First Out):** The shares purchased last are sold first.
- ✿ **HIFO (Highest Cost, First Out):** The highest-cost shares are sold first.
- ✿ **Specific Lot Identification:** You specify the share lots in your account to be redeemed or exchanged, each time shares are sold. Note: For systematic redemptions, your shares will be sold using FIFO (First In, First Out).



How do I select a cost basis method?

Your action is required by December 31, 2011. If you do not designate the cost basis method to be used prior to or at the time of your redemption, the trade will be processed using our default method of **Average Cost**. To select your cost basis method, you may:

✿ **MAIL:** Complete the election form and return it to:

Matthews Asia Funds
P.O. Box 9791
Providence, RI 02940-9791

✿ **PHONE:** Call us at 800.789.2742, Monday through Friday, 9 a.m. to 7 p.m. ET

✿ **WEB:** Log onto your account online at matthewsasia.com

When you redeem covered shares (shares acquired on or after January 1, 2012) from your account, we will calculate the cost basis on those shares according to your cost basis method election.

For more information, please consult your tax professional. You may also refer to IRS publication 550, *Investment Income and Expenses*.

What's changing in my tax reporting?

If you redeem covered shares (shares acquired on or after January 1, 2012) from your account during 2012, the Form 1099-B that you will receive in 2013 will provide cost basis and gain or loss information specific to the covered shares redeemed.

If I hold both covered and noncovered shares in my account, how will Matthews determine which shares are sold first?

Noncovered shares for which Matthews Asia does not have cost basis information will be sold first regardless of your chosen cost basis method. The order of sale for your remaining shares—both covered and noncovered—will be determined by your cost basis method. Please note, where the order in which shares are sold is based upon the cost of those shares (FIFO), the cost of noncovered shares will be fixed at their average cost.

What are wash sales and does Matthews track them?

Under current IRS regulations, a wash sale occurs when a shareholder attempts to claim a loss on the sale of an investment and a substantially identical investment is purchased within 30 days before or after the sale; this loss would be disallowed. For shares covered by the new legislation effective January 1, 2012, Matthews is only required to track wash sales where both the sale and the purchase resulting in the wash sale are from identical securities traded in the same account.

Can I change my cost basis method?

Yes, you have the option to change your cost basis method at any time. However, please note that if a redemption is processed under the average cost method, then the cost of all shares remaining in the account after the redemption must be fixed at their average cost. Please call our shareholder services representatives at 800.789.2742 to discuss your individual situation.

If you have additional questions, please visit matthewsasia.com/costbasis or call us at 800.789.2742.

The information, including all linked pages and documents, is not intended to be tax advice and cannot be used to avoid any tax penalties.



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